

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-14 ISO-00 IO-14 SP-03 AID-20 EB-11

NSC-07 RSC-01 CIEP-03 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

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TO SECSTATE WASHDC 3756

INFO AMEMBASSY NEW DELHI

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AMEMBASSY MANILA

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MANILA FOR USADB

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TAGS: ETRD, BG

SUBJ: BANGLADESH IMPORT POLICY JULY-DECEMBER, 1974

REF: DACCA 174

SUMMARY: STATE MINISTER COMMERCE BELATEDLY ANNOUNCED JULY 20
REALISTIC IMPORT POLICY FOR JULY-DECEMBER, 1974 SHIPPING PERIOD.
REFLECTING TIGHT FOREIGN EXCHANGE POSITION, ONLY \$293 MILLION
PROGRAMMED FOR IMPORTS (OTHER THAN FOOD, DEVELOPMENT AND REHAB-
ILITATION AND FOR CERTAIN GOVERNMENT ENTERPRISES), WELL DOWN
FROM \$431 MILLION ALLOCATED FOR PRECEDING JAN-JUNE PERIOD.
EMPHASIS SENSIBLY PLACED ON IMPORT OF RAW MATERIALS, INDUSTRIAL
SPARES AND INPUTS FOR EXPORT GOODS. END SUMMARY.

1. BACKGROUND. ABOUT 80 PERCENT OF THE FOREIGN TRADE OF BANGLADESH
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IS CONDUCTED BY TRADING CORPORATION OF BANGLADESH (TCB) AND OTHER

PUBLIC SECTOR AGENCIES. THE BANGLADESH IMPORT PROGRAM FOR PUBLIC AND PRIVATE SECTORS, EXCLUDING FOODGRAIN AND DEVELOPMENT IMPORTS, IS ANNOUNCED ON A HALF-YEARLY BASIS. FOR THE FIVE SUCH PERIODS SINCE INDEPENDENCE, THE AMOUNTS PROGRAMMED ROSE FAIRLY STEADILY AS FOLLOWS:

PERIOD AMOUNT (\$ MILLIONS AT TK 7.5 EQUALS \$1)

1972 JAN-JUNE 79

 JULY-DEC 233

1973 JAN-JUNE 292

 JULY-DEC 287

1974 JAN-JUNE 431

HOWEVER, ACTUAL IMPORTS HAVE CONSISTENTLY FALLEN WELL SHORT OF THE PROGRAMMED LEVEL. ACCORDING TO IMF, THE SHORTFALL WAS 38 PERCENT FOR THE TWO PERIODS IN FISCAL YEAR 1972/73. COMMERCE SECRETARY NURUL ISLAM TOLD EMBOFF THAT, GIVEN THE ACUTE FOREX CRISIS, THE SHORTFALL FOR THE JAN-JUNE, 1974 PERIOD WAS PROBABLY ON THE ORDER OF 30 PERCENT. NOR HAS THE IMPORT SYSTEM OPERATED WELL IN OTHER RESPECTS: COMPLICATED FINANCING PROCEDURES, FAILURE BY THE TCB TO MEET ITS RESPONSIBILITIES, POLICY CHANGES, AND FOREIGN EXCHANGE AND PAYMENTS UNCERTAINTIES HAVE LEFT INDUSTRIES UNCLEAR ON THE AVAILABLE AMOUNTS OF RAW MATERIALS AND SPARES OVER THE YEAR. THIS HAS HAMPERED MANAGEMENT DECISIONS, WHILE SHORT-AGES HAVE LIMITED PRODUCTION. FOR COMMERCIAL IMPORTS OF CONSUMER GOODS, SMALL AMOUNTS OF FOREIGN EXCHANGE HAVE BEEN DIVIDED UP AMONG THE LARGE NUMBERS OF LICENSED IMPORTERS. (AUTO PARTS IMPORTERS WERE TO GET ROUGHLY \$650 EACH IN THE JAN-JUNE, 1974 PERIOD.) THIS HAS LED TO WIDESPREAD TRADING IN LICENSES, AND INCREASED COSTS OF IMPORTS.

2. STATE MINISTER FOR COMMERCE, DEWAN FARID GAZI HELD PRESS CONFERENCE JULY 20 TO ANNOUNCE, BELATEDLY, IMPORT POLICY FOR JULY-DECEMBER, 1974 SHIPPING PERIOD. ABOUT TK 2.2 BILLION (\$293 MILLION) HAS BEEN EARMARKED FOR IMPORTS OTHER THAN FOOD, DEVELOPMENT/RECONSTRUCTION, AND PUBLIC SECTOR NON-DEVELOPMENT IMPORTS (E.G. MILITARY, RAILROAD AND PTT MAINTENANCE IMPORTS). THIS IS SOMEWHAT LESS THAN HALF THE TK 4.8 BILLION (\$640 MILLION) IN NON-FOOD IMPORTS PROJECTED FOR THE FULL FISCAL YEAR 1974/75 ANNUAL DEVELOPMENT PLAN (ADP).

3. THIS AMOUNT IS SHARPLY DOWN FROM \$431 MILLION PROGRAMMED FOR LIMITED OFFICIAL USE

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THE PRECEDING PERIOD, A REALISTIC REFLECTION OF THE CURRENT ACUTE FOREIGN EXCHANGE SHORTAGE, A SITUATION ACKNOWLEDGED BY MINISTER GAZI. HE EXPLAINED THAT THE PROVISION FOR IMMEDIATE CASH PAYMENTS IN FOREIGN EXCHANGE HAD BEEN RESTRICTED BECAUSE OF THE LARGER ALLOCATION DURING THE LAST SHIPPING PERIOD. BDG CASH/FOREX RESERVES AS OF JULY FIRST STOOD AT AROUND TK 480 MILLION (\$64 MILLION).

4. MAIN FEATURES OF NEW IMPORT POLICY FOLLOW:

A. PRIORITY, IN LINE ADP, IS GIVEN TO INDUSTRIAL RAW MATERIALS AND SPARES PARTICULARLY FOR ESSENTIAL CONSUMER GOODS INDUSTRIES AND EXPORTS WITH FOLLOWING AMOUNTS (IN MILLIONS OF DOLLARS)

ALLOCATED TO MAJOR PRODUCTS:

AMOUNT (\$ MILLIONS) PRODUCTS

| | |
|------|--|
| 44.0 | 500,000 TONS CRUDE OIL |
| 13.3 | 80,000 TONS REFINED PETROLEUM |
| 29.7 | 135,000 BALES COTTON |
| 9.3 | COTTON YARN |
| 5.9 | COTTON CLOTH |
| 16.8 | CEMENT AND CLINKER |
| 15.8 | UNREFINED EDIBLE OIL |
| 15.1 | TALLOW AND CAUSTIC SODA |
| 9.9 | PIG IRON AND SCRAP |
| 9.8 | MEDICINES AND PHARMACEUTICAL RAW MATERIALS |
| 8.5 | PULP |
| 8.4 | TOBACCO FOR CIGARETTES |
| 6.7 | COAL |

B. TO MAINTAIN IMPORTS OF MATERIALS FOR THE PRIVATE SECTOR, ONLY TK 25 CRORES (\$33 MILLION), OR 11 PERCENT OF TOTAL, HAS BEEN ALLOCATED, DESPITE RECENT LIBERALIZATIONS. THIS IS WELL DOWN FROM \$88 MILLION (20 PERCENT) PROGRAMMED FOR PRECEDING IMPORT PERIOD. (PRIVATE SECTOR ACCOUNTS FOR ESTIMATED 15 PERCENT OF TOTAL CAPITAL AND FIXED ASSETS IN INDUSTRY). NO PARTICULAR STEP TAKEN WITH THIS ANNOUNCEMENT TO FURTHER POLICY GOAL OF REDUCING THE SOME 20,000 COMMERCIAL IMPORTERS.

C. FINANCING IS TO BE DIVIDED ROUGHLY EQUALLY BETWEEN FOREIGN AID DISBURSEMENTS AND EXPORT EARNINGS. ACCORDING TO THE ANNOUNCEMENT, AGREEMENTS HAVE BEEN REACHED FOR THE LARGER PORTION OF THE FOREIGN ASSISTANCE REQUIRED. ON A DISBURSEMENT BASIS, THE ESTIMATE OF TK 1.1 BILLION (\$120-\$150 MILLION) IN NON-FOOD AID IS HIGH, BUT NOT OUT OF REACH. COMMERCE SECRETARY COMMENTED THAT EXPORT LIMITED OFFICIAL USE

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GOAL ALSO AMBITIOUS. BARTER TRADE (E.G. WITH USSR) ACCOUNTS FOR ONLY \$1.3 MILLION OF TOTAL.

D. EXPORT PROMOTION. TO PROMOTE EXPORTS, BDG HAD ALLOWED SPECIFIC INDUSTRIES TO IMPORT ADDITIONAL AMOUNTS (ABOVE THEIR REGULAR LICENSE ENTITLEMENTS) OF RAW MATERIALS IN PROPORTION TO THE F.O.B. VALUE OF THEIR EXPORTS. THIS SCHEME HAS BEEN FURTHER LIBERALIZED IN THE NEW IMPORT POLICY. THE PROPORTION OF F.O.B. VALUE ALLOWABLE FOR DIRECT IMPORT HAS BEEN INCREASED FROM 10 AND 15 PERCENT TO 20 PERCENT AND THE SCHEME WILL COVER ALL REQUIRED INDUSTRIAL RAW MATERIALS AND SPARES ALLOWED AGAINST REGULAR IMPORT LICENSES FOR EXPORT INDUSTRY CONCERNED.

5. COMMENT: NEW PROGRAM REPRESENTS SENSIBLE AND QUITE REALISTIC EFFORT MAINTAIN FLOW OF CRITICAL IMPORTS IN FACE SEVERE FOREIGN EXCHANGE LIMITATIONS, WITH TOBACCO THE ONLY LUXURY ITEM (SEE

REFTEL). AS IN PAST PERIODS, MUCH WILL DEPEND ON ACTUAL FOREIGN EXCHANGE AVAILABILITIES, AND IT WOULD APPEAR LIKELY THAT EVEN THE MODEST NEW PROGRAM WILL NOT BE FULLY ACHIEVED.

6. WE WILL POUCH TEXT OF NEW IMPORT POLICY WHEN PUBLISHED.
BOSTER

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